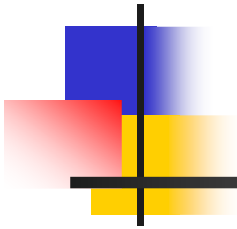


CDOH - NSP



Long Term Affordability



Scope

- NSP Long Term Affordability – Rental Housing
- NSP Long Term Affordability – Homeowner Housing
- Recapture - Overview
- Resale – Overview; Applicability
- Recapture – Options; Examples



Rental Housing Affordability

Key Concepts



Rental Housing Affordability

- Period of Affordability – State policy – 30 Years
- Limitation on occupancy – initial income qualification
- Limitation on Rent
- Fixed or Floating units – less than 100% NSP assisted units



Recapture Provisions

Key Concepts



Recapture: General Concept

- Homebuyer may sell home:
 - To any willing buyer
 - At any price
 - At any time
- Grantee must collect part or all of assistance from the net sale proceeds (if sufficient)



Description of terms

- Amount of funds provided
- Interest rate
- Term
- Payment, and/or
- Forgiveness



Direct subsidy

- Direct subsidy to the homebuyer:
 - Financial assistance that reduces purchase price for homebuyer below market OR otherwise subsidizes the homebuyer
 - Examples:
 - Downpayment loan
 - Purchase financing
 - Assistance to develop and sell unit below market
 - Closing cost assistance



Direct Subsidy - Formula

Market value of home
- Sales price of home

= Discount benefiting homebuyer
+ NSP funds provided directly
to homebuyer (Financing, DPA , Closing)

= Amount subject to recapture



Period of affordability: Recapture

- Affordability period based on total direct subsidy benefiting homebuyer
“amount subject to recapture”
- Does not include amounts used to subsidize development when that cost exceeds market
“development subsidy”



Period of Affordability (cont)

- Amount subject to recapture:
 - Amounts provided directly to, or on behalf of, the homebuyer, including:
 - Downpayment / closing cost assistance
 - Direct loan
 - PLUS**
 - NSP assistance that lowers cost of home below market price
- Must have lien covering full amount subject to recapture



Affordability Period

NSP*	Affordability Period
< \$15,000	5 yrs.
\$15 - 40,000	10 yrs.
Over \$40,000	15 yrs.

- Affordability periods are minimums -- Grantees can set longer terms

* For Recapture – Direct subsidy amount



Net proceeds

- Limit on amount recaptured: example
 - Sale Price
 - Superior Debt
 - Closing Costs
 - = Net proceeds
- Grantee cannot collect more than net proceeds



Insufficient net proceeds

- Net proceeds may not fully cover repayment obligation
- Original Terms - \$10,000 deferred financing, due on sale (no forgiveness)

Sales Price \$125,000

Superior Debt -\$114,000

Closing Costs -\$ 4,000

Net Proceeds =\$ 7,000 (max recapture)



Principal residence requirement

- Loan payoff doesn't end affordability period
- Financing/assistance repaid in 3rd year
- 5 year period of affordability
- Principal residence required through year 5



Ensuring Applicability of Recapture

- Income eligible buyer does not require purchase assistance or financing
- NSP may be used for development subsidy
- Sales price below market value -\$1,000 or more seller concession = direct subsidy
- Apply Recapture with applicable affordability period



Resale Restrictions

Key Concepts



Resale Restrictions: Applicability

- Used for activities involving Land Trusts
- Use for activities where Recapture not feasible – no direct subsidy to home buyer



Resale Restrictions

- Limits homebuyer's ability to resell – price and new buyer
- Sale at price affordable to a reasonable range of income eligible buyers
- New buyer must:
 - Be income eligible (120% AMI or 50% AMI)
 - Occupy house as principal residence
- New buyer may receive purchase assistance



Resale Restrictions

- Affordability period based on **total NSP investment** in the property
 - Must include \$\$\$ of NSP assistance to buyer
 - PLUS total amount of NSP funds to develop unit
- Seller must receive a “fair return” on original investment + improvements



Recapture

Model Provisions and Options



Recapture Options

- Based on the recapture requirement (as approved by HUD) and capped by net proceeds
- Options approved by HUD: (Sec. 92.254(a)(5)(ii)(1)-(4))
 - Recapture entire amount of direct subsidy to the homebuyer;
 - Forgive direct NSP subsidy pro-rata over the affordability period;
 - Proportionately share net proceeds; or
 - Allow buyer to recover his/her initial investment first.
- Can combine any of these options with shared appreciation



Recapture Entire Amount: Example

- NSP assistance: \$30,000
- Owner downpayment: \$10,000
- *Grantee gets repaid first*
- Sale at end of year 6
- Sales price: \$175,000
- Superior non-NSP debt: \$150,000
- Owner closing costs: \$5,000
- Amount to recapture?



Recapture Entire Amount: Example

■ Net Proceeds

\$175,000	(sales proceeds)
- \$150,000	(superior private debt)
- \$ 5,000	(closing costs)
<u> </u>	
= \$ 20,000	(net proceeds)

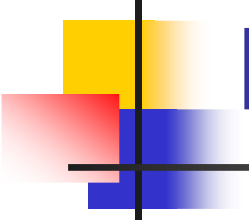
■ Direct Subsidy

\$30,000

■ Amount to Recapture

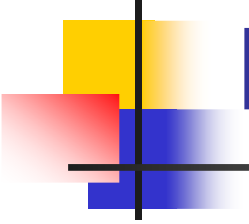
\$20,000

■ Owner gets \$0 (invested \$10,000)



Reduction during Affordability Period: Example

- NSP assistance: \$30,000
- Owner downpayment: \$10,000
- *Grantee forgives 10% per year*
- Sale at end of 6th year of 10 year affordability period
- Sales price: \$175,000
- Superior private debt: \$150,000
- Owner closing costs: \$5,000
- Amount to recapture?



Reduction during Affordability Period: Example

- **Net Proceeds**

- \$175,000 (sales proceeds)
 - \$150,000 (superior private debt)
 - \$ 5,000 (closing costs)
 - = \$ 20,000 (net proceeds)

- **Reduction to Direct Subsidy**

- \$30,000 X 10% = \$3,000/year
 - 6 years X \$3,000/year = \$18,000 forgiven
 - \$30,000 - \$18,000 = \$12,000

- **Amount to Recapture**

- \$12,000

- **Owner gets \$8,000** (invested \$10,000)



Share Net Proceeds: Example

- NSP assistance: \$30,000
- Owner downpayment: \$10,000
- Grantee proportionately shares proceeds
- Sale at end of year 6
- Sales price: \$175,000
- Superior private debt: \$150,000
- Owner closing costs: \$5,000
- Amount to recapture?



Share Net Proceeds: Example

- **Net Proceeds**

\$175,000	(sales proceeds)
- \$150,000	(superior private debt)
- \$ 5,000	(closing costs)
<u> </u>	
= \$ 20,000	(net proceeds)

- **NSP Share of Net Proceeds**

$$\$30,000 / \$40,000 = 0.75$$

$$0.75 \times (\$20,000) = \$15,000$$

- **Amount to recapture:**

\$15,000

- **Owner gets \$5,000** (invested \$10,000)



Owner Investment Returned First: Example

- NSP assistance \$30,000
- Owner downpayment: \$10,000
- Grantee agreed owner downpayment to be repaid first
- Sale at end of year 6
- Sales price: \$175,000
- Superior private debt: \$150,000
- Owner closing costs: \$5,000
- Amount to recapture?



Owner Investment Returned First: Example

- **Net Proceeds**

\$175,000	(sales proceeds)
- \$150,000	(superior private debt)
- <u>\$ 5,000</u>	(closing costs)
= \$ 20,000	(net proceeds)

- **Owner's Initial Investment Returned in Full**

$$\$20,000 - \$10,000 = \$10,000$$

- **Amount to Recapture: \$10,000**